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SUBJECT: LABOR COMPLAINT: A VISIT TO KAISI HARDWARE IN SOUTH CHINA

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¶1. (SBU) SUMMARY: Kaisi Hardware Company Ltd., one of China's largest furniture parts manufacturers and exporters appears to be addressing problems - including underpaying workers and providing poor working conditions - documented in a February report by the New York-based National Labor Committee (NLC). The NLC report, while largely accurate, also blamed the company for some conditions not under its control, such as lack of an independent labor union and low minimum wage standards. The company denied the charges of low pay and lack of compensation for injured workers, and encouraged the drafter of the NLC report to visit the company to review working conditions. The report's primary recommendation, that U.S. clients continue to work with Kaisi to improve conditions, is being heeded, and conditions appear to be much improved already. END SUMMARY.

Congenoffs Visit Kaisi Company

¶2. (SBU) In February, NLC published a report accusing Kaisi Hardware, in collusion with its American and other foreign clients, of underpaying workers, imposing long working hours, escaping work injury compensation, and providing poor working and living conditions. Consulate Officers visited the company in Guangzhou's Nansha District and met with Mr. Li Shaohan, President and owner of the company, and Dr. Yang Zhiyong, Deputy General Manager. Li is also a member of the Guangzhou People's Congress. Congenoffs also met with two ex-pats, a Canadian working for Knappe & Vogt (or KV, a U.S. based company and Kaisi's biggest client), and an American who is a retired employee of KV and now consults for Kaisi.

¶3. (U) Kaisi's biggest product lines are metal drawer slides and other hardware for furniture. Approximately 75% of the company's production is exported and 75% of that goes to the United States. The majority of the remaining exports go to Europe and 25% of the company's product is sold on the domestic market. The company is approximately 11 years old and now has 2,000 workers in three locations, of which Congenoffs visited two.

Two Factories: One New, One Old

14. (SBU) Conditions at Kaisi appeared to fall within the normal range of Chinese factories. However, there were noticeable differences between the two visited sites. The newer site is a two-year old factory set up for KV product and Kaisi OEM production. KV occupies a separate section of the factory which operates with used equipment brought from the United States. Though separated, both the KV and the Kaisi OEM production facilities looked similar. The factory was spacious and the factory floor clean. Lighting on the factory floor seemed adequate with natural light coming from the entry way and a few small windows. The worksite, a largely sheet-metal building, was very noisy with many presses operating simultaneously. All workers had ear protection and gloves and most of the presses had safety equipment.

15. (SBU) The second site was Kaisi's original factory that has been in use for 11 years and was the site of the accidents cited in the NLC report. The factory was much larger than the first site, with two large concrete and metal buildings. Both were dark, cavernous tin workshops with high ceilings and small windows. Inside, employees worked at a rapid pace, probably due to fact that workers are paid by the piece. The area was very noisy and dirty with raw materials lying around. Just as in the newer factory, all workers had ear protection and wore gloves. Large safety signs warned against wearing slippers, long hair, or items that could get caught in machines, while another listed labor rights information. Li showed Congenoffs the machines on which the accidents occurred and explained how workers went around safety cutoff devices in order to adjust the machines. These machines are no longer used. While these working conditions might not be acceptable in a Western setting, they are not unusual in the Pearl River Delta.

16. (SBU) Congenoffs also toured the factory's cafeteria and dorm. In the cafeteria, Li told Congenoffs that workers receive a RMB 1.7 (USD 0.22) subsidy for meals and can choose a RMB 3 (USD 0.39) meal or a RMB 5 (USD 0.65) meal. Workers said the

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food tasted good. Dishes included meat without a lot of fat. In one of the dorms, four sets of bunk beds without mattresses lined each wall for a maximum capacity of 16 to a room. It appeared that the top bunks were used as storage areas only, so rooms were not fully occupied. There was no other furniture or storage in the rooms other than some small stools. Three fans on the ceiling provided air movement. Paint on the walls was faded and lighting was poor.

The Kaisi Company's Defense

17. (SBU) Li admitted that overtime hours in the past exceeded the legal limit but not by as much as the NLC report claimed. He defended himself by saying that all factories in the area had similar practices. He also denied the report's claim that the company had not paid the workers properly and had not paid compensation to injured workers. He told Congenoff that average worker remuneration falls in the RMB 1,200-1,500 (USD 155-194) range per month and the variation is due to piece work instead of payment of an hourly wage. (The Guangzhou government-imposed minimum wage standard is RMB 780 (USD 101) per month.) Several workers with whom Congenoffs spoke separately confirmed these comments. One woman, who said she was satisfied with working at the factory, stated that her pay, while averaging RMB 1,200 (USD 155) per month, varied due to the flow of orders. Since the company sells millions of dollars worth of product per year, work is available at all times but some months there are higher volumes.

Impact of NLC Report on the Company

18. (SBU) According to Li, once the NLC report came out, numerous government authorities at various levels - Nansha District,

Guangzhou Municipality, and Guangdong Province - descended on the company to investigate. In total 46 government agencies have visited. Prior to the report's publication, government agencies rarely visited and Li commented that the government provides little support for small and medium enterprises like Kaisi. Li added that over 300 representatives of Kaisi customers, most from overseas, had visited the company since the NLC report. As a result of this attention from government agencies and clients, improvements in conditions have been, and are still being, made.

¶9. (SBU) The KV representative admitted that prior to the report from NLC, KV and other client firms had not paid much attention to labor issues in the factory. Instead, the focus was on product quality and production issues, but he added that ensuring safe operations was a concern. After the report was released, KV received negative publicity, and was contacted by many of their own customers. It now pays much more attention to basic corporate social responsibility (CSR) issues. The representative indicated that KV will hire a third party Chinese company to regularly audit Kaisi's and other KV producers' CSR and labor conditions.

Limitations of the NLC Report

¶10. (SBU) The report, while identifying many valid problems, has its own problems. In some areas, the author undercuts his arguments by blaming the company for problems that are based in central government rules and regulations - such as the lack of independent labor unions and low minimum wage standards. In others, the writer blames the company for issues that may be the responsibility of the worker - cleanliness of the dorms and the dorm bathrooms.

¶11. (SBU) Company management and the KV representative commented that they were surprised by the report and disappointed that the report drafter had never contacted anyone from either company. Li asked that Congenoff encourage the drafter of the NLC report to pay a visit to the company to review working conditions in person.

Comment

¶12. (SBU) Despite the shortcomings of the NLC report it is clear that much could be done to improve conditions at the factory and in the dormitories. Some of these improvements are mandated and have already been completed or appear to be planned for the near future. In other cases, optional improvements may only occur as Kaisi management of CSR improves, a potentially

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long-term process but one that will be encouraged by additional involvement by U.S. client companies whose motivation may also be somewhat limited but improving. The company is also open to suggestions. Congenoffs made additional recommendations to improve dormitory conditions and to ensure workers are aware of their rights.

¶13. (SBU) To put the situation in a local context, within minimizing the extent of worker injuries or the need to address factory shortcoming, many of the workers likely experience much worse living conditions with little hope for any employment in their home villages in inland China. They are likely more accepting of these conditions than western workers or even local employees from Guangdong Province. Nevertheless, workers tend to vote with their feet when a company's conditions are particularly poor. Despite the general labor shortage, very good companies in the Pearl River Delta tend to have fewer staff turnover problems. A company such as Kaisi, with a 20% turnover rate, would appear to fall in the middle range of labor intensive companies in the PRD.

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